

**DEPARTMENT OF WATER RESOURCES**

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**Water Supply Contract Negotiations****Objective 2: Maintain an appropriate level of reserves and funds to meet State Water Project<sup>1</sup> purposes****Department of Water Resources Initial Proposal 2a – Reserves****Initial Proposal to meet Objective: Increase General Operating Reserve and Expand its Purpose****Background**

The State Water Project (SWP) water supply contracts (contracts), specifically Article 51, provides for the creation and funding of a General Operating Account (GOA) to help ensure the continuing financial viability of the SWP. The initial GOA was \$22.7 million. The contracts allow for additional deposits of a maximum of \$2 million a year and accrual of investment earnings to bring the account to a level not to exceed \$32 million. As of January 2013, the GOA balance was \$27.4 million. Due to its low priority under Article 51(e), the Department of Water Resources (DWR) has not been able to increase the GOA to reach the \$32 million level. Increases in the account are from the accumulation of investment earnings. The account is used primarily to cover emergencies or unanticipated operating costs. It was not intended to cover shortages in capital costs.

**Initial Proposal**

Develop and implement a GOA level that meets DWR's financial cash flow needs with the flexibility to adjust reserve level amounts as DWR's financial needs change. Currently it is anticipated that a total GOA amount needed would be equivalent to 120 days of operating and power costs. The 120 days is representative of industry standards for a utility similar in size; \$1 billion annual costs. This proposal would change the priorities set forth in Article 51(e) by allowing the DWR to increase the GOA as a higher priority and to allow the account to be used for any SWP purpose including capital costs. This would require amendments to Article 51 of the current contracts.

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<sup>1</sup> The State Water Project (SWP) is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)